



Wells Thomas, LLC

Retirement Plan Design and Administration

February 24, 2009

Commerce Committee
Room 110, Capitol Building
Hartford, CT 06106

Re: Raised Bill No. 971 An Act Concerning Small Business Retirement Plans

Dear Members of the Connecticut Committee on Commerce:

My name is Sean Thomas and I am the president of Wells Thomas, LLC, a Third Party Administrative company in Branford, Connecticut. With a staff of ten retirement plan administrators and support personnel, our company provides retirement plan consulting, design and administrative services to approximately 375 small companies. I strongly oppose Raised Bill Number 971 - An Act Concerning Small Business Retirement Plans.

This Act would permit the State Comptroller to "establish a tax-qualified defined contribution retirement program to provide retirement investment plans, including, but not limited to, those created under Sections 401 of the Internal Revenue Code, of 1986..." with the goal of minimizing costs by "helping small employers and individuals purchase retirement savings plans...through economies of scale..."

While we agree that efforts should be made to entice small companies to establish qualified retirement plans for their employees, we do not agree with the method proposed in this bill. A similar bill was proposed in 2008 (SB No. 652), which had a funding amount of \$500,000 in the first year. As SB No 971 is written, this amount would be recoverable from plan assets, which would result in an increase in the underlying investment cost. If the costs were to be equitable and "competitive" in the current market, this additional cost would have to be in the range of 25 basis points (or 0.25%) of the total assets. This would mean that, in order to recover 100% of the start-up costs, and remain at the 25 bps level, the total assets under the program would have to average \$200,000,000 for the year. This would be quite the accomplishment, given the current economic environment.

Indeed, we are seeing our clients scale back the level of contributions to their existing plans because cash-flow has decreased dramatically in the past months for so many. In this economic environment, most small company plan sponsors will look at the plan contribution from a tax-savings point of view. An Employer Contribution to a plan will make sense if the 'employee cost' is less than the amount the owner(s) would pay in taxes if the same dollar amount were kept as profit. If the 'employee cost' is greater than the taxes would otherwise be, many plan sponsors are opting to retain the profits for themselves and simply pay the taxes.

In short, most small company owners opt to implement a plan and make ongoing contributions to the plan only if the owners are able to see a tax advantage in doing so. Often this can only be achieved through more complicated plan designs. Therefore, the key stumbling block we see in designing retirement plans for potential clients is not the administrative costs, nor the investment fees, but the restrictions in plan contributions.

In our profession, we strive to provide each client with an individually designed retirement plan that suits the need of that particular company. In an effort to accumulate sufficient retirement benefits for all level of employees, this often results in complex plan design and testing. In addition, we recognize the need for ongoing monitoring of all aspects of retirement plans as well as continuous education and

service to both the employer and employees.

We understand that the reason SB No 971 is being introduced is the intent to reduce plan fees. However in the current marketplace, fund and asset management expenses under retirement plans have already been decreasing. Several providers have released new products with lower expense ratios in order to compete in the qualified plan market. Many funds offered are Institutional or Retirement Class shares, with front and back end loads waived. Recent focus on fee disclosure has helped drive down Investment Advisor Fees.

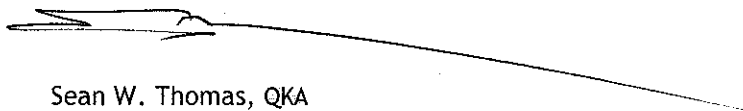
In addition, there are already a number of low- or no-cost plan design alternatives available to small companies, such as SIMPLE 401(k) Plans (which have very little administrative costs) and SIMPLE IRAs (which have no administrative costs). In addition, Safe Harbor Plans have been available for a number of years, which reduce administrative costs by eliminating certain plan testing requirements. These plans generally require the employer to make only a 3% of pay contribution to the employees and allow all employees to contribute higher amounts to the plan.

In operation, if SB No 971 were to pass, an RFP for the state sponsored plans would be issued each time the current contract expires. If a change in the provider occurs, this would result in forced changes in investments by plan participants, mandating notices and education to all those affected in order to meet Fiduciary Requirements. This would create an extremely large administrative burden, with associated costs going to plan participants or Connecticut taxpayers.

I believe one of the more immediate concerns is that of Fiduciary Liability. The fact that the State Comptroller will put out RFPs and make the decision on which investment provider will be offered, would, under the terms of ERISA, make the State Comptroller a Fiduciary to EACH of the individual small company plans that elect to take part in this. This matter should be looked into very carefully as it could potentially bring liability.

Thanks to the Committee for your time today.

Sincerely,



Sean W. Thomas, QKA
President